



Chevron Corporation (CVX)

Updated May 6th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$166	5 Year CAGR Estimate:	-0.2%	Market Cap:	\$319 B
Fair Value Price:	\$230	5 Year Growth Estimate:	-10.0%	Ex-Dividend Date:	5/18/22
% Fair Value:	72%	5 Year Valuation Multiple Estimate:	6.7%	Dividend Payment Date:	6/10/22
Dividend Yield:	3.4%	5 Year Price Target	\$136	Years Of Dividend Growth:	35
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Sell

Overview & Current Events

Chevron is the fourth-largest oil major in the world based on its market cap of \$319 billion, behind only Saudi Aramco, Shell (SHEL) and ExxonMobil (XOM). In 2018, 2019 and 2021, Chevron generated 78%, 78% and 84% of its earnings from its upstream segment respectively. While close industry peers BP and Total produce crude oil and natural gas at approximately equal ratios and Exxon has a 60/40 production ratio, Chevron is more leveraged to the oil price, with a 61/39 production ratio. Moreover, as Chevron prices some natural gas volumes based on the oil price, about 75% of its output is priced based on the oil price. As a result, Chevron is more leveraged to the oil price than the other oil majors. In late April, Chevron reported (4/29/22) financial results for the first quarter of fiscal 2022. It cut its production by -2% over last year's quarter but greatly benefited from the rally of oil and gas prices to 13-year highs, which resulted from the sanctions of western countries on Russia for its invasion in Ukraine. As a result, the oil major grew its adjusted earnings-per-share 31% sequentially, from \$2.56 to \$3.36, a nearly all-time high. Chevron outperformed Exxon by a wide margin, as the latter posted essentially flat earnings due to losses from price hedges. As we do not expect sanctions to be withdrawn anytime soon, we expect oil and gas prices to remain excessive this year and thus we have raised our forecast for the annual earnings-per-share of Chevron from \$9.90 (our forecast before the war) to \$16.40.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$13.32	\$11.09	\$10.14	\$2.45	-\$0.27	\$3.79	\$7.74	\$6.19	-\$0.20	\$8.13	\$16.40	\$9.68
DPS	\$3.51	\$3.90	\$4.21	\$4.28	\$4.29	\$4.32	\$4.48	\$4.76	\$5.16	\$5.31	\$5.68	\$5.94
Shares¹	1947	1913	1880	1883	1892	1905	1914	1872	1911	1922	1900	1800

Chevron invested heavily in growth projects for years but failed to grow its output for an entire decade, as oil projects take several years to start bearing fruit. However, Chevron is now in the positive phase of its investing cycle.

Chevron grew its output by 5% in 2017, 7% in 2018, 4% in 2019, 1% in 2020 due to the pandemic and 0.5% in 2021. Chevron has now returned to growth mode thanks to its sustained growth in the Permian Basin and in Australia. The company has more than doubled the value of its assets in the Permian in the last three years thanks to new discoveries and technological advances. Chevron also learned its lesson from the previous downturn and now invests most of its funds in projects that begin delivering cash flows within two years. In addition, thanks to the high grading of its asset portfolio, Chevron can fund its dividend even at an oil price of \$40. Nevertheless, given the blowout, all-time high earnings-per-share expected this year, we expect a -10% average annual decrease of earnings-per-share over the next five years. Investors should not forget the dramatic cyclicity of the oil industry.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	8.1	10.9	11.9	39.4	---	29.4	14.1	19.3	---	12.8	10.1	14.0
Avg. Yld.	3.3%	3.2%	3.5%	4.4%	4.3%	3.9%	4.0%	4.0%	5.8%	5.1%	3.4%	4.4%

¹ In millions.

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Chevron's stock valuation has fluctuated wildly over the past decade. This reflects the underlying volatility of its business model and profitability. When oil prices rise and Chevron's profits increase, its valuation multiple shrinks. Conversely, periods of falling oil prices result in a ballooning price-to-earnings ratio. Chevron is now trading at a 10-year low price-to-earnings ratio of 10.1. This earnings multiple is lower than its 10-year average of 18.2. We expect the stock to trade at an earnings multiple around 14.0 in 2027. If this proves correct, the stock will enjoy a 6.7% annualized gain in its returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	26.4%	35.2%	41.5%	175%	---	114%	57.9%	76.9%	---	65.3%	34.6%	61.3%

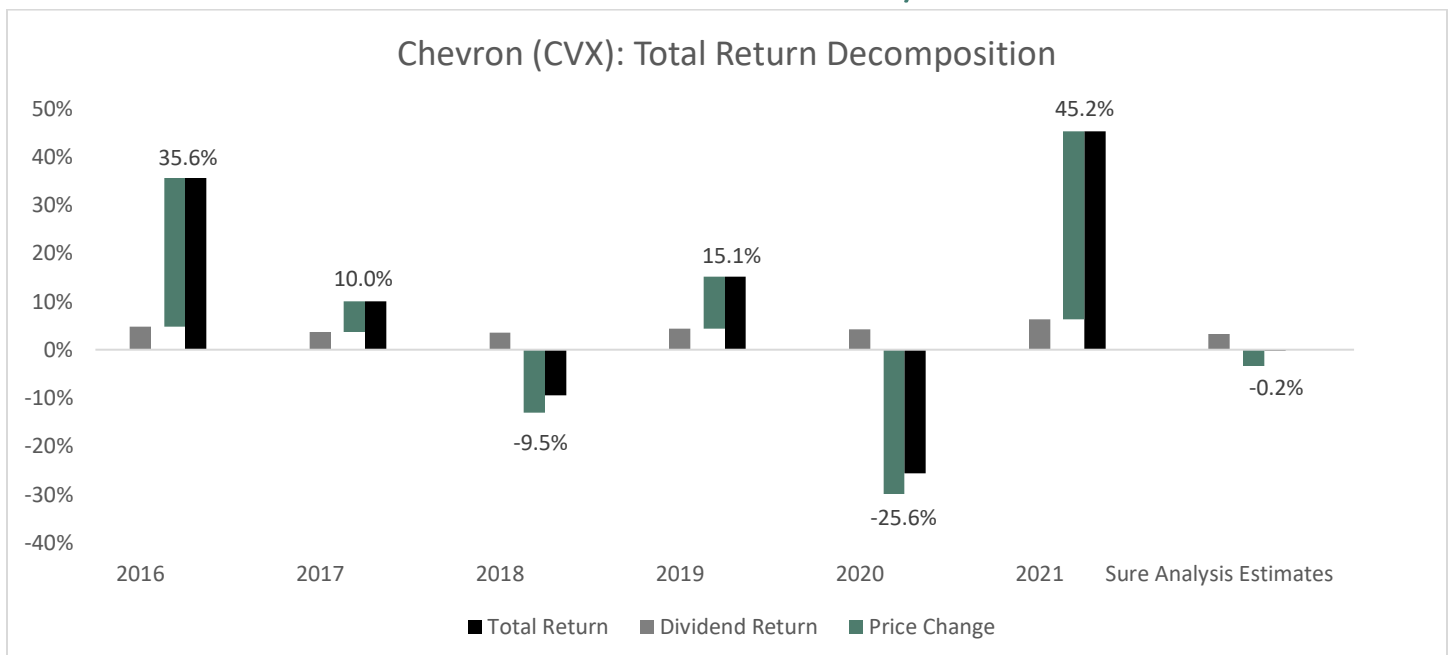
As a commodity producer, Chevron is vulnerable to any downturn in the price of oil, particularly given that it is the most leveraged oil major to the oil price. The oil major issued debt in 2020 to defend its dividend amid the pandemic but it is recovering strongly from that crisis and the payout ratio has become sustainable again.

Chevron's main competitive advantage is its size and industry position. As major projects have recently been completed, the company achieved record free cash flows in 2017-2019 and in 2021. Chevron has raised its dividend by 6.0% this year and is likely to keep raising its dividend in the upcoming years, albeit at a modest pace. Chevron is a member of the exclusive Dividend Aristocrats list thanks to its 35 consecutive years of dividend increases. The only other Dividend Aristocrat in the oil industry is Exxon Mobil.

Final Thoughts & Recommendation

Chevron is one of the highest quality energy stocks on the market today. However, thanks to the 13-year high oil and gas prices, which have resulted from the war in Ukraine, the stock has more than doubled in 18 months, to a new all-time high. We expect oil and gas prices to remain high this year and thus the stock may maintain its strong momentum in the short run. However, due to the high cyclicality of the energy sector, we expect oil and gas prices to deflate in the upcoming years and hence we expect a poor 5-year return from Chevron. We rate it as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue (\$B)	230.59	220.16	200.49	129.93	110.22	134.67	158.90	139.87	94.47	155.61
Gross Profit	76411	71274	64030	39137	31437	39560	44905	30534	24475	48,309
Gross Margin	33.1%	32.4%	31.9%	30.1%	28.5%	29.4%	28.3%	21.8%	25.9%	31.0%
SG&A Exp.	4724	4510	4494	4443	4305	4110	3838	4143	4213	4,014
Operating Profit	35013	27213	19726	-3710	-5471	3128	14446	100	-6977	17,925
Op. Margin	15.2%	12.4%	9.8%	-2.9%	-5.0%	2.3%	9.1%	0.1%	-7.4%	16,180
Net Profit	26179	21423	19241	4587	-497	9195	14824	2924	-5543	10.4%
Net Margin	11.4%	9.7%	9.6%	3.5%	-0.5%	6.8%	9.3%	2.1%	-5.9%	15,625
Free Cash Flow	7874	-2983	-3932	-10B	-5419	6934	16826	13198	1700	10.0%
Income Tax	19996	14308	11892	132	-1729	-48	5715	2691	-1892	21,131

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	232.98	253.75	266.03	264.54	260.08	253.81	253.86	237.43	239.79	239.54
Cash & Equivalents	20939	16245	12785	11022	6988	4813	9342	5686	5596	5,640
Acc. Receivable	20997	21622	16736	12860	14092	15353	15050	13325	1147	18,419
Inventories	6144	6380	6505	6334	5419	5585	5704	5848	5676	6,305
Goodwill & Int.	4640	4639	4593	4588	4581	4531	4518	4463	4402	4,385
Total Liab. (\$B)	95.15	103.33	109.84	110.65	113.36	104.49	98.22	92.22	107.06	99.60
Accounts Payable	22776	22815	19000	13516	13986	14565	13953	14103	10950	16454
Long-Term Debt	12093	20334	27750	38469	46033	38763	34459	26973	43870	30920
Total Equity (\$B)	136.52	149.11	155.03	152.72	145.56	148.12	154.55	144.21	131.7	139.07
LTD/E Ratio	0.09	0.14	0.18	0.25	0.32	0.26	0.22	0.19	0.33	0.22

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	11.8%	8.8%	7.4%	1.7%	-0.2%	3.6%	5.8%	1.2%	-2.3%	6.5%
Return on Equity	20.3%	15.0%	12.7%	3.0%	-0.3%	6.3%	9.8%	2.0%	-4.0%	11.5%
ROIC	18.6%	13.4%	10.8%	2.4%	-0.3%	4.8%	7.8%	1.6%	-3.7%	9.0%
Shares Out.	1947	1913	1880	1883	1892	1905	1914	1872	1911	1922
Revenue/Share	117.35	113.95	106.42	69.29	58.84	70.96	83.02	73.81	50.52	81.04
FCF/Share	4.01	-1.54	-2.09	-5.36	-2.89	3.65	8.79	6.96	0.91	11.01

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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